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HOW THE NEW CURRENCY LAW AFFECTS ME

With Explanations,

By

GEORGE H. SHIBLEY

**Expert to the Senate Committee on Banking
and Currency**

New York

J. S. OGILVIE PUBLISHING COMPANY

57 Rose Street

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HOW THE NEW CURRENCY LAW AFFECTS ME

PART I

OUTLINE

The passage of the new Banning and Currency Law marks the beginning of a new and better era in the American business world, as the following facts demonstrate.

One of the main features in the new law is as follows:

“Every Federal reserve bank shall have power: . . . (d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business.” (Sec. 14.)

In other words, in place of the immediate control of the interest rate for money by the moneylenders, largely the great speculative banks, the rate from now on is to be controlled for the entire nation by the Federal Reserve Board, consisting of seven members appointed by the head of the Government whom

the people have elected, and the acts of whose administration will be passed upon at each National election. Thus the people are in power in the administration of this Federal Reserve Act.

Stated another way, for the entire United States there will be a unified control of the immediate interest rate for money, thereby controlling the volume of money and of credits in use, and this control will be from the standpoint of promoting the interests of the general public.

This general system has existed in the leading countries of Europe for many years and, therefore, is no experiment. Its great value is beyond question. Its establishment in our remarkably large country, and a country that is in a condition where stability in the purchasing power of money will doubtless become the criterion, will result in a new era—an era of stability in the purchasing power of money—Stable Money.

THE MECHANISM FOR MAINTAINING STABILITY

The mechanism whereby stability in the purchasing power of money is to be attained is in two main parts: First, an elastic volume of money (Sec. 16); and, second, the concentrating and making mobile of a portion of the bank reserves (Secs. 13, 14, 19). By a combination of these two methods the Reserve

banks, acting under the constant supervision of the national board, should be able to secure stability in the purchasing power of money.

More in detail, there can be no more general panics for money because, one, the volume of money is to be elastic; and, two, the volume is to be controlled by a Government Board. This takes the place of a practically inelastic volume of money in this country; and, heretofore, the control in this country has been in the private banks, largely the great speculative banks, except as foreign bankers and foreign governments or the Secretary of the Treasury of the United States have interfered. Thus public control is being substituted for private control. This vast change is similar to that which has taken place in the control of interstate railways.

The controlling power, as has been shown, will be the Federal Reserve Board, representing the people. This board will control the immediate interest rate for money and thereby control the demand for credits and money, which will determine the volume of money and credits in use, which, in turn, will be a determining factor in fixing the purchasing power of money—the price level. The “price level” is the average of prices for products. In the past this average has fluctuated greatly, as is pointed out in Part III.

The price level for products at wholesale will doubtless be measured each business day by the Federal Reserve Board, thereby supplying a

real gauge for fixing the immediate interest rate for money, just as a fireman is supplied with a steam gauge. For ten years the Federal Government has been measuring the price level,* and now a national board is being established for the control of this price level, and with instructions to do so "with a view of accommodating commerce and business."

Much will depend upon the meaning which the President and his Federal Reserve Board shall place upon the words "accommodating commerce and business." The House struck from the Administration's bill the words "and promoting a stable price level." Had those words been kept in the bill the money question—that is, the contest over the control of the volume of money and credits—would have been settled. Justice in money matters between the competing industrial groups would have been established. As it is, the money question has, for the coming three years, been passed up to the President and his Federal Reserve Board.

But, at any rate, the Federal Reserve Board will aim to prevent fluctuations in the price level, and it will prevent any considerable fall, so that we are warranted in presenting the following general summary as to the results that probably will flow from the new system:

In place of violent fluctuations in the interest rate for money, panics for money, and

* "Measurement of Price Level by the Government," see Part III, at page 92.

periods of industrial depression, there will exist a system of money and credit wherein the interest rate will be practically stable, and no such thing as a general panic for money can exist, while periods of deep industrial depression will be a thing of the past, because from now on, owing to the unified and intelligent control of the immediate interest rate for money by our Federal Reserve Board, added to similar systems throughout Europe, there will be prevented the undue expansion of credits, and the resulting rise in the price level, which heretofore has culminated in panic and the collapse of the credit-structure with falling prices and deep depression. In other words, cycles of rising price-levels followed by panic, falling prices, and depression will no longer be permitted. The United States possesses forty per cent. of the banking power of the world, and now that she has joined the European countries in providing an intelligent control of the price-level a new era is being entered upon—a new era in monetary science and business conditions. Therefore, the wise business man will study the system. This will be no child's play, for the causes that are being set in operation are complicated and far-reaching.

Before presenting the new law in detail we herewith outline some of the principal changes which the new law will bring into operation.

THE PEOPLE IN CONTROL

Additional proof that the people are again in control in national affairs is the fact that in this law the agriculturists have been given their fair share of rights (Secs. 13, 24, and 2); and a system of agricultural banks is to be established.

Also, there is promised during the coming months the establishment of a Depositors' Insurance Fund in connection with the Federal Reserve system. When this has been accomplished then no depositor in the Federal Reserve system can lose his or her money; also the bankers themselves will be protected from "runs" by depositors; and every business man will be secure from the danger of having his funds tied up in a bank receivership. In the recent Senate bill as it went to conference the necessary funds for the payment of losses were to come from a portion of the vast profits which the Government is to receive from the Federal Reserve system.

Heretofore the portion of the bank reserves not in the vaults of the individual banks of the national system were in the "Reserve Cities" and in the three "Central Reserve Cities"—New York, Chicago, and St. Louis; also, these reserves were in privately owned banks, some of which had come to exercise tremendous power. In the new system the principal reserve banks are to be owned and operated coöper-

atively; and these reserve banks thus owned and operated are to be spread out in at least eight districts, and possibly as high as twelve districts.

Part of the preceding system was that a considerable portion of the reserves in the central reserve cities were loaned out on "call" for use in the stock market, in order that the money should be forthcoming when wanted. This "call" money system was developed because of, one, the absence of an elastic volume of money; and, two, the absence of a rediscount market. Both of these defects are remedied in the present system; and the rediscount system is not to be used to supply funds for stock speculation (Sec. 13).

REGULATED COMPETITION

Furthermore, the increased fluidity of banking capital, due to the rediscount system, combined with the inability of the great private banks to longer control the interest rate or to prevent business enterprises from getting funds, will put at end to bank domination. Therefore the Government is not to loan money to the individual citizens, relying upon regulated competition among 25,000 banks.

FEDERAL CLEARING HOUSE

One of the great benefits to the citizens is to be the unification of a considerable portion of

the privately owned banks of the country for the cheap transfer of funds. In each reserve bank the checks, as they pour into it daily, will be gathered up for delivery to the member banks, each of the said member banks being charged or credited with the balance against it or for it. In this way the cost of transacting the country's business will be reduced to the minimum. In Europe each country having a central bank and branches possesses a somewhat similar system, funds being transferred from any part of the central bank system to any other part merely by the use of checks, and without charge in some instances, and with only a slight charge in all other cases. In the United States the privately owned banks are being unified for the cheap transfer of funds. This is likely to become so important after a time that practically all banks will find it necessary to become members of the Federal Clearing House.

PROBABLE VOLUME OF GOLD

The volume of gold in this country will be under the control of the Federal Reserve Board. By raising the interest rate for rediscounts the tendency will be to depress the prices of products and thus attract gold to this country; and vice versa. But the aim, doubtless, will be to secure stability in the purchasing power of money, as that is the thing of most importance

to us at this time. We have an immense volume of gold in this country, and, if stable money shall be the aim, then the volume of our gold will increase. Should the volume of gold coming from the mines become too large, an efficient remedy will be for the gold standard countries to reduce somewhat the mint price; that is, in place of the existing price of \$18.60 per troy ounce, nine-tenths fine, the price can be reduced to the extent required by the then-existing conditions. The self-interest of the gold standard countries would cause them to take this needed step.

STABILITY IN BANK-CREDIT STRUCTURE

The effect of the elastic volume of money properly controlled will be that the bank-credit structure of the country will become stable, the volume of credits ebbing and flowing with the changes in the demand for a medium of exchange. This stability in the bank-credit structure under the new system will be of inestimable value.

PARTIAL SOLUTION OF HIGH COST OF LIVING

Of immediate and great interest to each citizen is the fact that, should the Federal Reserve Board bring about stability in the purchasing

power of money, then one of the chief elements in the high cost of living will have been eliminated. The purchasing power of money is shown in the prices of the products which money purchases, and one of the troubles has been that undue inflation in the volume of money has gradually raised the average of prices for products, while wages and many other forms of incomes have lagged behind. If the average of prices for products shall be kept stable through the proper control of the interest rate for rediscounts, then wages and other forms of income will become adjusted.

HIGH INTEREST RATES PROBABLE

Doubtless a high interest rate will exist for several years. To-day there are vast demands for liquid capital (as distinguished from fixed capital), and, therefore, the immediate interest rate for money and credit for the purchase of this liquid capital must be high enough to sufficiently restrict the output of money and credit, otherwise there would be inflation—a rise in the price level for products.

Labor is not classed as a product. Wages are likely to rise considerably. The way that the high cost of living will become normal will be for wages to rise while the average of prices of the things purchased with wages remains stable.

EFFECT OF ABOLISHING TRUST PRICES

The effect of abolishing trust prices—monopoly prices—will be for the prices in those particular lines to become normal. For example, the termination of trust prices for meats will lower the price of meats to the consumers and raise the price of live stock to the stockraisers.

Also, in proportion as trust prices to consumers are terminated it will tend to leave more money in the pockets of the consumers for the purchase of other things, which would mean slightly higher prices, or the purchase of more commodities, or more leisure.

These facts are given to outline the probable course of prices if events shall demonstrate that the people are actually back in power.

A BANK OF BANKS

The eight or more Federal Reserve banks are to deal only with the banks of deposit—the banks that receive the people's deposits. In brief, the Federal Reserve system is to be a "bank of banks." But the beneficial effects will be felt by every citizen in the ways we have pointed out. However, this can not be seen by reading the new law, for in no way does it attempt to describe the far-reaching results. But in order that a citizen shall be well posted he should at least read the new law and the explanatory notes herewith given,

together with the all-important information set forth in this introductory chapter and in Part III.

Doubtless it will be March 1, at least, before any of the Federal Reserve banks will have been sufficiently organized to begin operations. In the meantime the Secretary of the Treasury will be in control of the price level through his control of the Treasury's money in the National Banks and in the Treasury. Last autumn he prevented a stringency in the money market, and now he may confidently be relied upon to prevent inflation.

PART II

FEDERAL RESERVE ACT

(Owen-Glass Act)

Approved December 23, 1913

An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this

Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS

Sec. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: **Provided**, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required, within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up

capital stock and surplus of such bank,¹ one-sixth of the subscription to be payable on call of

¹ SUBSCRIPTIONS TO THE CAPITAL STOCK.—The banks of deposit, that is, the banks doing business with the public, are to subscribe for the capital stock in the reserve banks, because through the ownership of the capital stock the control of the corporation is determined.

The reason for the ownership and control of the reserve banks by the banks of deposit is that the reserve bank in each district is to do business only with the said banks of deposit, and so these banks of deposit are to own and operate the reserve banks. In other words, in place of the system of reserve banks privately owned, such as existed in this country up to the time of the passage of this Federal Reserve Act, which system conferred tremendous power upon the few who directed them, there is to be a system of Co-Operative Reserve Banks, fully owned and operated by the National banks and such other banks as shall join the system. Furthermore, in place of three central reserve cities in which the bank reserves have been pyramided and largely loaned on "call," resulting in stock gambling, there is to be a Co-Operative Reserve bank in each section of the country, with no more "call" loan business.

At the time of the framing of the above provision for ownership of the reserve banks by the banks that are to use them for the loaning of their own money to themselves, the opposition to the majority in Congress urged that the control be placed in appointees of the Government, but the majority stated that the loaning of the hundreds of millions of dollars which it is expected will be placed in these reserve banks should be by the representatives of those whose money is to be loaned. This is sound reasoning. The National banks simply would not and could not be expected to place in Government appointees the loaning of their funds, any more than they would have placed their money in the national banking system had it been proposed that the Government should appoint a majority of the members of the boards of directors of the National banks. The National banking system is that the public interests are cared for through regulations in the law and continuous supervision by the Comptroller of the Currency and his staff; and so the public interests in the Federal Reserve system

the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

Any national bank failing to signify its agreement to be cared for through (1) minute regulations in the law; (2) a continuous supervision by the Federal Reserve Board of seven members, all of whom are to be appointed by the head of the Government, whom the people have elected; and (3) representation by the Federal Government on each board of directors of the reserve banks. The Federal Government is to deposit its ready money with these reserve banks and the amount will be about one-third of the total deposits and capital of the said reserve banks, and this entitles the government to one-third of the representation on the board of directors of the reserve banks. The system is strictly co-operative, except that the Government has provided that, for a reason hereafter to appear the banks that place their deposits with the reserve bank shall receive nothing directly for the use of these deposits by the reserve bank. Thus, the use of something like \$400,000,000 yearly will be given to the Government, thereby reducing the people's taxes to the extent that profits are derived from the \$400,000,000 of deposits—a vast sum.

ceptance of the terms of this Act within the sixty days aforesaid shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than \$25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said

organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital of less than \$4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of \$100,000, or so much thereof

as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

BRANCH OFFICES

Sec. 3. Each Federal reserve bank shall establish branch banks within the Federal reserve district in which it is located and may do so in the district of any Federal reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

FEDERAL RESERVE BANKS

Sec. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause

to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organization certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares

subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint, by its board of directors, such officers and employees as are not otherwise provided for in this Act, to define their

duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.²

² RETIREMENT OF BANK NOTES—MAINTENANCE AT PAR OF 2 PER CENT. BONDS.—This provision is to be read in connection with section 18.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who

at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Directors of class A and class B³ shall be chosen in the following manner:

The chairman of the board of directors of the Federal reserve bank of the district in

³ CONTROL OF RESERVE BANKS BY MEMBER BANKS.—The three directors of the reserve banks in class B are to be elected by the member banks, and the reasons therefor are stated in note 1, page 22.

which the bank is situated or, pending the appointment of such chairman, the organization committee shall classify the member banks of the district into three general groups or divisions. Each group shall contain as nearly as may be one-third of the aggregate number of the member banks of the district and shall consist, as nearly as may be, of banks of similar capitalization. The groups shall be designated by number by the chairman.

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

Each member bank shall be permitted to nominate to the chairman one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively,

upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman

of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank ⁴ he shall be required to maintain under regulations to be established by the Federal Reserve Board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative for the performance of the functions conferred upon it by this Act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C, who shall be a person of tested banking experience, shall be appointed by the Federal Reserve Board as deputy chairman and deputy Federal reserve agent to exercise the powers of the chairman of the board and Federal reserve agent in case of absence or disability of his principal.

Directors of Federal reserve banks shall re-

***CHAIRMAN OF BOARD OF DIRECTORS.—**The chairman of the board of directors of each of the reserve banks will be an appointee of the Government, along with two other directors thus appointed, while the member banks will have elected six of the nine members of the board, thereby giving them control when a vote is taken, while the Government, through its naming of the chairman, will be sure that questions proposed by the minority will be put to a vote, and that proper debate will be allowed by the chairman; also that proper records will be kept.

ceive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers, or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank it shall be the duty of the directors of classes A, B, and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be

filled in the manner provided for the original selection of such directors, such appointees to hold office for the unexpired terms of their predecessors.

STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL

Sec. 5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus

of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

Sec. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve

bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

DIVISION OF EARNINGS

Sec. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative.⁵ After the aforesaid

⁵ DIVISION OF EARNINGS.—In connection with the foregoing also observe that in section 19, relating to the volume of bank reserves, the member banks are to deposit a vast amount of capital with the reserve banks—something like \$400,000,000, and for this the member banks are not to receive anything direct—the net interest to be earned is all to go to reduce the people's taxes. Thus, although the member banks are to receive

dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the prop-

6 per cent. on the capital stock of something like \$50,000,000, which is to be exempt from taxation by the States and municipalities, except the real estate, making the net earning capacity equal to more than 7 per cent. where state and municipal taxation applies, yet the net earnings of the member banks for their entire investment in the reserve banks are exceedingly small. However, the net advantages to the member banks from the lessening of the volume of reserves required under the improved system, and the various other advantages, make it reasonably sure that the new system will attract practically all of the existing National banks—some 7,400—and that quite a proportion of the 14,500 state banks and trust companies will join. It is expected that in the revision of the National Bank Act that is to be undertaken soon there will be incorporated a Depositors' Insurance Fund, heretofore described as the Guaranty of Bank Deposits.

erty of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom, shall be exempt from Federal, State, and local taxation, except taxes upon real estate.⁶

STATE BANKS MAY BECOME NATIONAL BANKS

Sec. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

Provided, however, That said conversion shall not be in contravention of the State law. In

⁶ EXEMPTION FROM TAXATION.—The value of this exemption is more than one per cent. per year.

such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

STATE BANKS AS MEMBERS

Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, may make application to the reserve bank organization committee, pending organization, and thereafter to the Federal Reserve Board for the right to subscribe to the stock of the Federal reserve bank organized or to be organized within the Federal reserve district where the applicant is located. The organization committee or the Federal Reserve Board, under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located. Whenever the organization committee or the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

The organization committee or the Federal Reserve Board shall establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies for stock ownership in Federal reserve banks. Such

by-laws shall require applying banks not organized under Federal law to comply with the reserve and capital requirements and to submit to the examination and regulations prescribed by the organization committee or by the Federal Reserve Board. No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking Act.

Any bank becoming a member of a Federal reserve bank under the provisions of this section shall, in addition to the regulations and restrictions hereinbefore provided, be required to conform to the provisions of law imposed on the national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against making purchase of or loans on stock of such banks, and the withdrawal or impairment of capital, or the payment of unearned dividends, and to such rules and regulations as the Federal Reserve Board may, in pursuance thereof, prescribe.

Such banks, and the officers, agents, and employees thereof, shall also be subject to the provisions of and to the penalties prescribed by sections fifty-one hundred and ninety-eight, fifty-two hundred, fifty-two hundred and one, fifty-two hundred and eight, and fifty-two

hundred and nine of the Revised Statutes. The member banks shall also be required to make reports of the conditions and of the payments of dividends to the comptroller, as provided in sections fifty-two hundred and eleven and fifty-two hundred and twelve of the Revised Statutes, and shall be subject to the penalties prescribed by section fifty-two hundred and thirteen for the failure to make such report.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board, it shall be within the power of the said board, after hearing, to require such bank to surrender its stock in the Federal reserve bank; upon such surrender the Federal reserve bank shall pay the cash-paid subscriptions to the said stock with interest at the rate of one-half of one per centum per month, computed from the last dividend, if earned, not to exceed the book value thereof, less any liability to said Federal reserve bank, except the subscription liability not previously called, which shall be canceled, and said Federal reserve bank shall, upon notice from the Federal Reserve Board, be required to suspend said bank from further privileges of membership, and shall within thirty days of such notice cancel and retire its stock and make payment therefor in the manner herein provided. The Federal Reserve Board may restore membership upon due proof of com-

pliance with the conditions imposed by this section.

FEDERAL RESERVE BOARD

Sec. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial, and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of \$7,000 annually for his services as a member of said Board.

The members of said Board, the Secretary

of the Treasury, the Assistant Secretaries of the Treasury, and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice-governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

The Federal Reserve Board shall have power to levy semi-annually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together

with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire

thirty days after the next session of the Senate convenes.

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

POWERS OF FEDERAL RESERVE BOARD

Sec. 11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and of each member bank, and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act: Provided, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be per-

mitted to fall below the level hereinafter specified: And provided further, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve

cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar

of stocks and bonds under such rules and regulations as the said board may prescribe.⁷

(1) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January 16, 1883 (volume 23, United States Statutes at Large, page 403), and amendments thereto, or any rule or regulation made in pursuance thereof: Provided, That nothing herein shall prevent the President from placing said employees in the classified service.

⁷ TRUST COMPANIES UNDER FEDERAL LAW.—In order that the banks organized under Federal law shall be accorded more of the valuable rights which now are exercised solely by corporations holding state charters the above was placed in the law. Under the present administration most of the valuable rights which the National banks formerly held have been taken from them—no longer are the Government deposits of money given to the National banks (they are paying 2 per cent.), and the cost of the bank notes that are issued in connection with the 2 per cent. bonds is increased (the 5 per cent. of the amount of bank notes outstanding is no longer to be deducted from its lawful reserves; section 20 of this act), so that it has become necessary to offer the National banks enough valuable rights to keep them from dropping the National bank charters and taking out State charters.

FEDERAL ADVISORY COUNCIL

Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere, as it may deem necessary, may select its own officers and adopt its own methods of procedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies shall serve for the unexpired term.

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3)

to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

POWERS OF FEDERAL RESERVE BANKS

1. Deposits

Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

2. Rediscounts

Upon the indorsement of any of its member banks, with a waiver of demand, notice, and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of ex-

change issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days: Provided, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted in an amount to be limited to a percentage of the capital of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.⁸

⁸ REDISCOUNTS—VOLUME OF MONEY AND PRICE LEVEL—DISCRETIONARY CONTROL.—The above is one of the main provisions of the new law. Further details are in the remaining paragraphs of the section.

The main idea is that the demand for cur-

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months, and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction

rency shall come in connection with business paper that will (1) become due in a short time; and (2) will surely be paid. When paid the money will be handed over to the agent of the Federal Reserve Board, who holds the business paper, and thereby the money will be out of circulation. Thus a prompt retirement is provided for, which is as important as ease in issuance.

The volume of currency that will be issued from time to time will be determined as follows:

First. By the interest rate for rediscount, as provided for in the next section, the said rate to be fixed from time to time by the board of directors of each reserve bank, subject to a final power in the Federal Reserve Board to control it.

Second. By the maintaining of a gold reserve, as provided for in section 16. This will merely operate, however, as a limitation, and not in any way determine from week to week the changes in the volume of currency and gold within the country, which will depend upon the discretionary control by the Federal Reserve Board, the same as is the control in each of the leading European countries. Thus intelligence, and not automatism, will be the directing power.

shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half its paid-up capital stock and surplus.

3. Powers of Member Banks

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

The rediscount by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.⁹

4. Open-Market Operations

Sec. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.¹⁰

⁹FULL PROTECTION OF PUBLIC INTERESTS.—The above is another illustration of the way that the public interests are fully protected. The Federal Reserve Board, composed of members that fully represent the public, are to be continuously on duty, under powers that will enable the said board to fully protect all public interests. Should any additional powers for them be found to be useful they can be added by any Congress.

¹⁰REASONS FOR THE OPEN MARKET.—The reason for these open-market provisions is to enable the Federal Reserve Board to be empowered to do whatever it shall find to be necessary for the public welfare. Only under unusual conditions will the reserve banks be permitted or ordered to go into the open market and purchase or sell, thereby operating in competition with the member banks, and also accepting more risks from losses than where the paper purchased shall be endorsed by a duly inspected bank.

5. Additional Powers of Reserve Banks

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold.

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board.

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined.

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged

by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business.¹¹

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties.

GOVERNMENT DEPOSITS

Sec. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national bank notes and the funds provided in this Act for the redemption of Federal reserve notes may,¹² upon the direction of the Secretary

¹¹ See page 7.

¹² MAINTENANCE OF THE INDEPENDENCE OF THE FEDERAL GOVERNMENT'S TREASURY.—Note that the word used is "may," and not "shall," as was proposed in the Aldrich bill. Were the Federal Administration forced by a law of the land to deposit all of its ready money with another corporation or set of corporations it would take from it a large part of its independence.

of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: Provided, however, That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

NOTE ISSUES AND GOLD RESERVE

Sec. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia,

or in gold or lawful money¹³ at any Federal reserve bank.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application.¹⁴ The collateral security thus offered shall be notes and bills, accepted for rediscount under the provisions of section thirteen of this Act, and the Federal reserve agent shall each day notify the Federal Reserve

¹³ GOLD EXPORTS.—While the maintenance of the gold standard of prices is amply provided for, the aim of the above provision, "gold or lawful money," is that the reserve banks need not supply gold for export unless they wish to. The Government Treasury at Washington is obliged to supply gold when called upon, as we have seen, but the distance of Washington from New York will tend to cause the gold for export to be secured from the private New York banks. In European countries the general rule is that gold can be demanded from the Government or the central bank only at one place.

¹⁴ THE SYSTEM.—In other words, the system is that the Federal Reserve notes are to be issued only in exchange for business paper; and then as it is paid the volume of money will be reduced correspondingly. In that way there will be a prompt retirement of the currency that has been issued. On the other hand, the need for currency will be shown in a practicable manner. This general system of asset currency is in use in every leading country in Europe. It is the cheapest and most practicable plan that is known. The business men of the United States in their competition with Europe are now to be supplied with as good or a better system than that in use by their competitors.

Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum¹⁵ against its Federal reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal reserve agent. Notes so paid out shall bear upon their faces a distinctive letter and serial number, which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to

¹⁵ GOLD RESERVE.—Here the percentage of the gold reserve is 40 per cent., while in Germany, for example, the percentage is 33⅓. But all that this limitation can do is to insure that gold will be retained in use in this country; the constant check and gauge being the interest rate for rediscunts provided for in section 14. There will still exist the gold reserve in the Federal Treasury, amounting to \$150,000,000, that is back of (1) the \$346,000,000 of "greenbacks," (2) the \$2,500,000 of other forms of treasury notes, and (3) the \$725,000,000 of National bank notes. Furthermore, there is the gold in the Federal Treasury that is back of the gold certificates, amounting, on December 1, 1913, to \$1,100,000,000. This country has the largest volume of gold of any country in the world.

the Federal reserve bank through which they were originally issued. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out.¹⁶ Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer.¹⁷ Federal reserve notes received by the Treasury, otherwise than for redemption may be exchanged for gold out of the redemption fund

¹⁶ CURRENCY CIRCULATION.—This insures that within each reserve district the Federal reserve notes in use will be those of its own bank.

¹⁷ NO ENDLESS CHAIN.—This and other provisions demonstrate that the Federal Reserve banks must care for the demands for gold. There will be no repetition of the "endless chain," which at one time caused the Government to issue bonds to maintain the gold reserve.

hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancelation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part or to reject entirely the application of any Federal reserve bank for Federal reserve notes;¹⁸ but to the

¹⁸ THE SYSTEM.—While the law expressly states that the Federal Reserve Board may reject applications for loans, yet the logic of the situation will be such that at no time will there be a rejection, judging from the operation of similar systems in Europe, and the fact that the way the Federal Reserve Board will limit the output of currency will be through its control of the interest rate. Whenever the board shall find it desirable to further restrict the output of currency the thing that will be done will be to raise the interest rate. That will lessen the demand—it will shake out all who are willing to retire rather than pay the higher rate. In other words, under the new system currency will always be obtainable by those who possess the regulation se-

extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board,¹⁹ and the amount of such Federal reserve notes so issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this Act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.²⁰

curities and are willing to pay the going rate; whereas, under the preceding system there were times when the money-lenders were able to and did ruin capable business men by refusing them loans, no matter how ample their securities.

¹⁹ INTEREST CHARGES.—On the paper currency that is issued the Government will get the interest that is paid by the reserve banks to the Federal Reserve Board; and, also, will get whatever net profits that these reserve banks shall make. It follows that it will make no difference to the Government's income from the system whether the Federal Reserve Board shall charge a low or a high rate of interest to the reserve banks.

²⁰ AMPLE SECURITY.—The Federal Reserve Notes are to be amply secured. In addition to the security upon which the bank that accepts the business paper will rely there will be the endorsement of that bank, whose liability includes the personal liability of its stockholders for an amount equal to the amount of the bank's capital stock held by them. Next there will be the liability of the reserve bank, which includes the 40 per cent. gold reserve and the double liability of the banks that own the capital stock of the reserve bank (section 2).

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing, with the Federal reserve agent, its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available exclusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit so much of said gold to the Treasury of the United States as may be required for the exclusive purpose of the redemption of such notes.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes deposited with it and shall at the same time substitute therefor other like collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and

dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100 as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, bed pieces,

and so forth, and regulations relating to such examination of plates, dies, and so forth, of national bank notes provided for in section fifty-one hundred and seventy-four, Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national bank notes or notes provided for by the Act of May 30, 1908, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act, in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: Provided, however, That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn

upon any of its depositors, and, when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.²¹

The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.²²

²¹ RATE-MAKING.—Here the Federal Reserve Board is very properly clothed with authority to determine rates. Rate-making requires investigation and an opportunity for revision as conditions change, which requires that a board or other form of commission shall be placed in charge.

²² FEDERAL CLEARING HOUSE, see page 13.

Sec. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June 20, 1874, and section eight of the Act of July 12, 1882, and of any other provisions of existing statutes as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds is hereby repealed.

REFUNDING BONDS—RETIREMENT OF NATIONAL BANK NOTES

Sec. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct

the purchase to be made: Provided, That Federal reserve banks shall not be permitted to purchase an amount to exceed \$25,000,000 of such bonds in any one year, which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

Provided further, That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.

Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired

under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited. Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: Provided, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes

shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and, at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And, for the same purpose, the Secretary is

authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.²³

BANK RESERVES

Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment.

When the Secretary of the Treasury shall have officially announced, in such manner as he may elect, the establishment of a Federal reserve bank in any district, every subscribing member bank shall establish and maintain reserves as follows:

²³ NATIONAL BANK CIRCULATION.—For an additional provision on the subject in this section see note 2, page 30, and section 20.

(a) A bank not in a reserve or central reserve city as now or hereafter defined shall hold and maintain reserves equal to twelve²⁴ per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults, for a period of thirty-six months after said date, five-twelfths thereof and permanently thereafter four-twelfths.

In the Federal reserve bank of its district, for a period of twelve months after said date, two-twelfths, and for each succeeding six months an additional one-twelfth, until five-twelfths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member bank and in the Federal reserve bank, shall be held in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.

(b) A bank in a reserve city, as now or hereafter defined, shall hold and maintain reserves

²⁴ RESERVES IN COUNTRY BANKS.—This provision for 12 per cent. will take the place of 15 per cent.

equal to fifteen ²⁵ per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults, for a period of thirty-six months after said date, six-fifteenths thereof, and permanently thereafter five-fifteenths.

In the Federal reserve bank of its district for a period of twelve months after the date aforesaid at least three-fifteenths, and for each succeeding six months an additional one-fifteenth, until six-fifteenths have been so deposited, which shall be the amount permanently required.

For a period of thirty-six months after said date the balance of the reserves may be held in its own vaults, or in the Federal reserve bank, or in national banks in reserve or central reserve cities as now defined by law.

After said thirty-six months' period all of said reserves, except those hereinbefore required to be held permanently in the vaults of the member bank and in the Federal reserve bank, shall be held in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.

(c) A bank in a central reserve city, as now or hereafter defined, shall hold and maintain a

²⁵ RESERVES IN "RESERVE" CITIES.—This new rate of 15 per cent. will take the place of 25 per cent. This vast lessening in the cost of doing business comes as the result of providing an elastic volume of currency and the mobilization of a portion of the bank reserves.

reserve equal to eighteen²⁶ per centum of the aggregate amount of its demand deposits and five per centum of its time deposits, as follows:

In its vaults six-eighteenths thereof.

In the Federal reserve bank seven-eighteenths.

The balance of said reserves shall be held in its own vaults or in the Federal reserve bank, at its option.

Any Federal reserve bank may receive from the member banks as reserves, not exceeding one-half of each installment, eligible paper as described in section fourteen properly indorsed and acceptable to the said reserve bank.

If a State bank or trust company is required by the law of its State to keep its reserves either in its own vaults or with another State bank or trust company, such reserve deposits so kept in such State bank or trust company shall be construed, within the meaning of this section, as if they were reserve deposits in a national bank in a reserve or central reserve city for a period of three years after the Secretary of the Treasury shall have officially announced the establishment of a Federal reserve bank in the district in which such State bank or trust company is situated. Except as thus provided, no member bank shall keep on deposit with any non-member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as

²⁶ RESERVES IN "CENTRAL RESERVE" CITIES.—This rate of 18 per cent. will take the place of 25 per cent.

the medium or agent of a non-member bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board. .

The reserve carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored.

In estimating the reserves required by this Act, the net balance of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which reserves shall be determined. Balances in reserve banks due to member banks shall, to the extent herein provided, be counted as reserves.

National banks located in Alaska or outside the continental United States may remain non-member banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks, except in the Philippine Islands, may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall, in that event, take stock, maintain re-

serves, and be subject to all the other provisions of this Act.

Sec. 20. So much of sections two and three of the Act of June 20, 1874, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

BANK EXAMINATIONS ²⁷

Sec. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: Provided, however, That the Federal Reserve Board may authorize examination by the State author-

²⁷ STRICTER CONTROL OF NATIONAL BANKS.—The object of this section amending the law concerning bank examinations is to provide a stricter control of National banks.

ities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the

Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

Sec. 22. No member bank or any officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given. Any examiner accepting a loan or

gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given; and shall forever thereafter be disqualified from holding office as a national bank examiner. No national bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

Other than the usual salary or director's fee paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a member bank shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank. No examiner, public or private, shall disclose the names of borrowers or the collateral of loans of a member bank to other than the proper officers of such bank without first having obtained express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House

thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this section shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

Except as provided in existing laws, this provision shall not take effect until sixty days after the passage of this Act.

Sec. 23. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

LOANS ON FARM LANDS ²⁸

Sec. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

FOREIGN BRANCHES ²⁹

Sec. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal

²⁸ FARM LOANS BY NATIONAL BANKS.—Under the party now in power the farmers are receiving additional rights, some of which are enumerated in note 11, page 61.

²⁹ FOREIGN BRANCHES.—One of the additional powers offered to National banks is that of establishing foreign branches, under regulations set forth in the succeeding section.

Reserve Board, upon such conditions and under such regulations as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the place or places where the banking operations proposed are to be carried on, and the amount of capital set aside for the conduct of its foreign business. The Federal Reserve Board shall have power to approve or to reject such application if, in its judgment, the amount of capital proposed to be set aside for the conduct of foreign business is inadequate, or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authority to establish foreign branches shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by

it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

Sec. 26. All provisions of law inconsistent with or superseded by any of the provisions of this Act are to that extent and to that extent only hereby repealed: Provided, Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March 14, 1900, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may, for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

ALDRICH-VREELAND ACT EXTENDED AND CHANGED

Sec. 27. The provisions of the Act of May 13, 1908, authorizing national currency associa-

tions, the issue of additional national bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the 30th day of June, 1914, are hereby extended to June 30, 1915, and sections fifty-one hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May 30, 1908, are hereby reënacted to read as such sections read prior to May 30, 1908, subject to such amendments or modifications as are prescribed in this Act: Provided, however, That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States shall pay for the first three months a tax at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes.³⁰

³⁰ COMPARISON OF PERCENTAGES.—The per cent. of tax provided for under the Aldrich-Vreeland Act was as follows: Five per cent. per

REDUCTION OF CAPITAL STOCK IN NATIONAL BANKS

Sec. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

CONSTITUTIONAL LAW—AMENDMENT

Sec. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction

annum, for the first month, and thereafter "an additional tax of one per cent. per annum for each month until a tax of ten per cent. per annum is reached, and thereafter such tax of ten per centum, upon the average amount of such notes."

to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

Sec. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved, December 23, 1913.

PART III

HISTORY OF FLUCTUATIONS IN THE PURCHASING POWER OF MONEY, 1897-1914

As is explained in Part I, the purchasing power of money has fluctuated greatly in the past, owing to an incomplete control of the volume of money and credit in use. The history of those fluctuations for the United States is shown in the following measurements taken by the Federal Government in its Department of Labor, beginning in 1902:

The measurement is of wholesale prices in the leading markets for 255 products, with averages for the years 1890 to 1900 as the basis, or 100. This index number, as it is termed, was constructed by giving due prominence to wheat, corn, and so forth by including them in several forms. The average of prices at any one time is termed the price level or general prices.

Tremendous fluctuations in this price level have taken place since 1890. The average for the year 1897 was down to 89.7, the low point for any one year in modern times. The next year the average was 93, and the following year 101, a gain of 8 points in a single year. The

next year, 1900, the average of prices jumped something like 12 per cent in six months, largely due to the legislation inflating the paper currency by the act of March 14, 1900. But during the summer and autumn the prices sagged and this continued until well into 1901, going down 3 or 4 points. For 1902, as a whole, the rise in prices for commodities as compared with 1901 was 4 points. For 1903, as a whole, the average of prices for commodities was nearly stationary, although for part of the year there was considerable fall. For 1904 the average for the year was about the same as for 1903. The next year, 1905, the price level went up 2 points; then up 7 points in 1906; and again the next year up 7 points more. These 14 points of rise in the prices for commodities, being a corresponding depreciation in the purchasing power of money, were for the entire two years, and we know that from September, 1907, to the end of the year—the time of the terrific panic for money—there was a serious fall in prices. For 1908, as a whole, the prices for commodities went down 7 points, and there was a much greater fall from October, 1907, to July, 1908. For 1909 prices went up nearly four points over the average for the preceding year, to 126. The following year prices went up 5 points more; and the next year, 1911, down 2 points, and for 1912 up 4 points, the high point for the price level to that time. From December 1, 1912, to December 1, 1913, there was a fall of 3.3 per

cent., according to Bradstreet. In brief, from 1896 to December, 1912, there was a 40 per cent. rise in the average of prices for commodities at wholesale—the purchasing power was depreciated 40 per cent. Previous to this era of depreciating money there were nearly 30 years during the principal part of which time there were falling prices for commodities—an appreciating money.

Practically the same terrific changes have taken place throughout the gold standard world. Tables of prices for several of the countries of Europe for the era of rising prices were presented to the British Statistical Society in December, 1911, and are published in its journal for that date at page 35. The data shows that in Germany the average rise in prices for commodities at wholesale has been about the same as in the United States, namely, 42 per cent. in Germany for the 13 years from 1896 to and including 1909, as compared with a 40 per cent. rise in this country, and a 30 per cent. rise in France, and a 21 per cent. rise in England. Two years later in England the rise amounted to 31 per cent.

The continuation of the measurement of the price level for the United States by the Department of Labor will be mailed to you without charge if you request it. Address the Department at Washington, D. C.

Under the new Federal Reserve system stability in the price level should be secured, ex-

cept that enough of a rise should be provided for from harvest time to harvest time to allow for the cost of carrying the crops. When the prices drop at harvest time there also should be a corresponding drop in the price level.

From month to month watch Bradstreet's index number of general prices; that is, the average of prices (price level) for products at wholesale. It is published in Bradstreet's Weekly.

A PROPHECY

The author, after years of study of money and prices and a most full consideration of the probable course of events in connection with the control of the price level by the Federal Reserve Board, states as his deliberate opinion that business men will meet with the conditions predicted in Part I.



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